

State of Utah



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2002

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2002

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Olene S. Walker..... Lt. Governor
Auston G. Johnson, CPA..... State Auditor
Edward T. Alter, CPA..... State Treasurer
Mark L. Shurtleff..... Attorney General
L. Alma "Al" Mansell..... President of the Senate
Martin R. Stephens..... Speaker of the House
Christine M. Durham..... Chief Justice, Supreme Court

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ACKNOWLEDGMENTS

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



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State of Utah

Department of Administrative Services

Division of Finance

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November 22, 2002

To the Citizens, Governor,
and Members of the Legislature
of the State of Utah:

It is our pleasure to present the 2002 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A-3-204 of the *Utah Code*. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects in accordance with generally accepted accounting principles (GAAP). We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

The Report. The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains a list of principal officials, this transmittal letter, and the state organization chart. The Financial Section contains the State Auditor's report; Management's Discussion and Analysis (MD&A); the Basic Financial Statements, which includes the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, and fiduciary funds, together with notes to the Basic Financial Statements; Required Supplementary Information, which includes budgetary comparison schedules and information about infrastructure assets; and Supplementary Information, which includes combining financial statements and schedules for individual funds. The Statistical Section provides a history of selected financial and demographic information.

This report includes all funds of the State of Utah and includes all departments, agencies, and other organizational units governed by the Legislature and/or the constitutional officers of the State. In addition to these *primary government* activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions.

Management's Discussion and Analysis (MD&A). The discussion and analysis beginning on page 14 provides an overview and analysis of the State's Basic Financial Statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.

Changes in Accounting Standards. The Governmental Accounting Standards Board issued new accounting and reporting standards that are effective beginning this year. These new standards have impacted the State's revenue and expenditure recognition and changed the way the State reports assets, liabilities, and fund equity. This report has been prepared using the new financial reporting model. Consequently, much of the information in this report is not comparable to prior years. Over time, however, the new reporting model will provide valuable information that will enable citizens and decision makers to better understand the long-term financial position of the State.

Internal Control. The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance of safeguarding assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Independent Auditors. In compliance with state statute, an annual financial audit of the "State Entity" is completed each year by the Utah State Auditor's Office in conjunction with other independent audit firms. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in

Government Auditing Standards issued by the Comptroller General of the United States. The State Auditor's report on the Basic Financial Statements is included in the Financial Section of this report.

Federal regulations also require the State to undergo an annual "Single Audit" in conformance with the Federal Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of expenditures of federal awards, audit findings, summary of prior audit findings, and recommendations, and the State Auditor's report, is issued in a separate report and will be available at a later date.

PROFILE OF THE GOVERNMENT

Structure. As shown in the organizational chart on page 10, state government is divided into three separate departments: legislative, executive, and judicial. The duties of each department are outlined in the *Constitution of Utah*, which can be amended only by a majority vote of the State's citizens, and in the *Utah Code*, which can be amended by the Legislature or by citizen initiatives. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the state's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

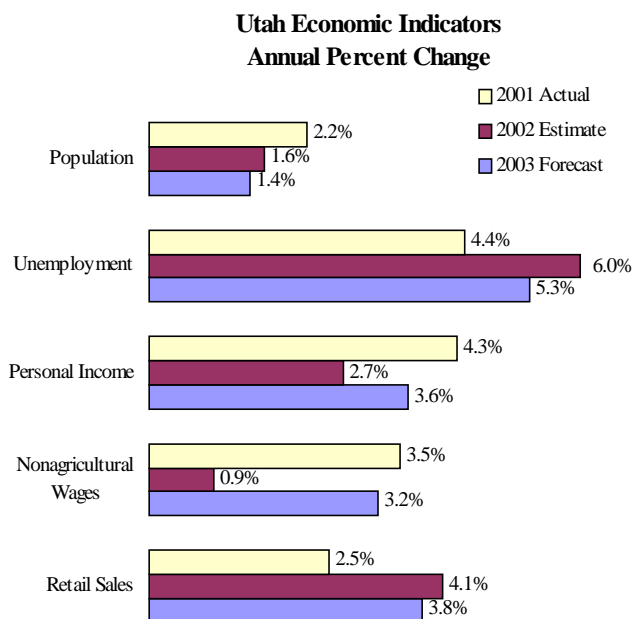
Budgetary Control. The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget to the Legislature. The Legislature authorizes expenditures in the annual *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions, or he may call a special session of the Legislature to address budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that departments and funds will not end the fiscal year in a deficit position.

Spending Limitations. As explained in the notes to Required Supplementary Information on page 101, the State has an appropriation limitation statute that limits the growth in state appropriations to relative increases in population, personal income, and inflation. The statute also caps the state-mandated property tax rate at the level set July 1, 1989. For the fiscal year ended June 30, 2002, the State was \$340.7 million below the appropriations limitation. The State is currently below the fiscal year 2003 appropriations limitation by \$294.1 million.

ECONOMIC CONDITIONS AND OUTLOOK

Economy. Nationally, corporate before-tax profits fell 14.3 percent in 2001 and are expected to fall another 1.2 percent through the end of 2002 as market signals continue to be mixed. The national unemployment rate is expected to remain near 6.0 percent for the next two years, up from 4.8 percent in 2001. Utah's economic indicators have mirrored these national trends, though the State seems to have fared better overall than most states across the nation.

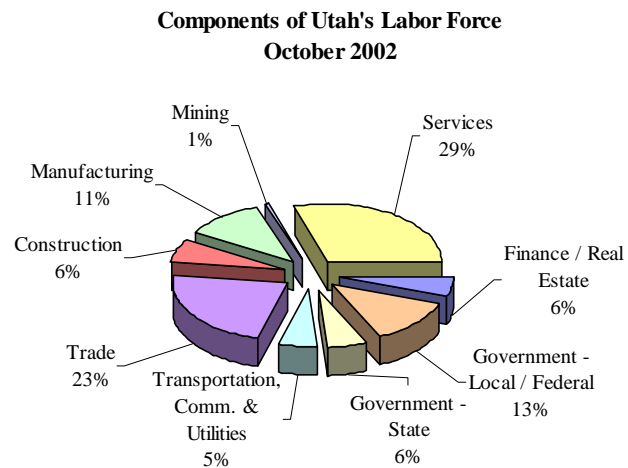
In Utah, the unemployment rate is expected to reach 6.0 percent by the end of the year before falling to 5.3 percent in 2003. This is a significant change from last year's rate of 4.4 percent. With higher unemployment, growth in personal income and nonagricultural wages is expected to be a modest 3.6 percent and 3.2 percent, respectively, through the end of 2003. Also, retail sales are estimated to rise 4.1 percent in 2002 and 3.8 percent in 2003, nearly half the rates Utah saw during the past decade. Though consumer spending in Utah has remained steady through this period of declining growth, much of that spending has been for "big-ticket" items such as homes and automobiles, leaving consumers less disposable income for other consumable goods. Until the national markets show signs of steady improvement, Utah's economy will likely continue to struggle to gain ground.



Source: Council of Economic Advisors

Industries. The number of nonfarm wage and salaried jobs fell 1.0 percent in 2002 but is expected to creep up 0.7 percent in 2003. Since October 2001, all industries in the State except services and government have suffered job losses. The most significant declines were in construction and mining at 8.8 percent and 5.3 percent, respectively. The contraction in construction was largely expected due to the pre-Olympic buildup that ended last year, but construction jobs as a percent of total nonfarm employment are still above that industry's 24-year average share. The largest labor sector, services, was held to only 0.5 percent growth as gains in personal services, amusement/recreation, management, and health services offset losses in computer, legal, and lodging services. Growth in government employment was entirely within federal and local positions, mostly due to the new school year adding jobs to local school districts. State government jobs have declined as a result of budget cuts and will likely see further reductions through 2003.

Outlook. While Utah's economy is expected to moderately decline or remain flat in the near term, the State's industrial structure continues to be well-balanced and diversified with a broad base of businesses and a solid technology and transportation infrastructure. Combined with a young and highly educated workforce, the State is positioned well for positive long-term economic growth.



MAJOR INITIATIVES

Education. With an expected influx of approximately 100,000 new students by the year 2010, a 20 percent increase, and absent new methods of funding that do not overtax our citizens, continued stagnation in the economy has the potential to severely impact funding that is available for education. With this in mind, the Governor and Legislature have instituted programs designed to make the State's education system more efficient with the limited resources it has, including more flexible block grant funding to local school districts and state-wide testing and feedback systems designed to hold schools and administrators accountable for the resources they receive.

High Tech High Schools. The Bill and Melinda Gates Foundation selected Utah for a \$3.5 million grant to help develop six New Century High Schools, commonly referred to as High Tech High Schools. These new schools will focus on technology, science, and engineering fields with small class sizes and limited internships. These schools have emerged as part of the State's efforts to double the number of math, computer science, and engineering students by 2005. Students of High Tech High Schools will graduate with a high school diploma and an associate's degree and either enter the labor market immediately or continue their education with other state-sponsored scholarships at Utah's colleges and universities. These new high schools are expected to locate in Logan, Ogden, Cedar City, Salt Lake, and the Provo-Orem area.

Economic Development in Rural Utah. Economic development in the State's rural communities is as crucial to Utah's economic recovery as revitalizing urban areas along the Wasatch Front. To this end, the Governor's Rural Partnership Office has implemented two programs to assist rural communities in planning for and realizing the opportunities of the new economy.

Utah Smart Sites. Smart Sites are facilities in rural Utah with high-speed internet bandwidth where a company employs trained workers to perform computer and technology-related services for clients anywhere in the world. Workers receive specialized training in basic technology skills that enable them to provide services such as web site development, database administration, data entry, software testing, and help desk support. Businesses participating in the program have access to resources such as special equipment lease rates, training funds, state job and investment tax credits, and matching funds for trade shows. Since the program began over a year ago, Smart Sites have created over 500 new jobs in Native American and rural communities including Roosevelt, Blanding, Kanab, Richfield, Mount Pleasant, Orangeville, and Fort Duchesne.

21st Century Communities. The challenge of the 21st Century Communities program is to prepare rural Utah for unprecedented population and visitor growth, create new jobs, reduce unemployment, diversify rural economies, and protect quality of life. Rural leaders who participate in the program are required to evaluate their area's unique strengths and opportunities by completing a number of community assessments that cover a variety of topics. The Governor's Rural Partnership Office provides tools and assistance to help communities through the process. Once completed, the assessments become a foundation for a unique workplan based on local priorities and capabilities. As soon as the community can demonstrate meaningful progress toward implementing its workplan, it is designated as a 21st Century Community. To date, the Governor's Office has awarded this designation to 15 rural cities and towns. Another 106 communities are in the process of completing their assessments and workplans.

E-Government. In an effort to make state government services more convenient to the public and more efficient internally, the Governor has set a goal of having all appropriate state government services online by 2004. Currently, the State offers over 100 services through its web site www.utah.gov. Following are examples of government services already available online:

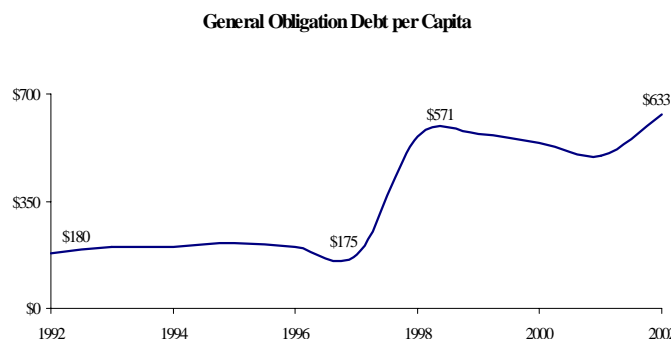
- *Employment* – file unemployment claims, search for jobs, search for employees, register new employers and employees, access unemployment tax rates, read about current economic conditions, compare wages locally and nationally, and download forms.
- *Taxes* – file returns and pay sales, income, and unemployment taxes; research tax laws; download forms; and pay local property taxes for a limited number of counties.
- *Business* – renew state business registrations and professional licenses; search UCC listings, agricultural liens, current professional license status, and business entity listings; make UCC filings online; and renew business licenses via links to local governments' web sites.
- *Driver and Vehicle Information* – renew driver licenses and vehicle registrations; search titles, liens, registrations, and driving records; and notify the Driver License Division of changes in address.
- *Health and Safety* – request copies of birth certificates, search the State's sex offender registry, find adoption and child care services in local communities, and download forms for welfare and food stamp assistance.
- *Recreation* – purchase hunting and fishing licenses, and make camping reservations at any Utah State Park.
- *Community* – register to vote, check local traffic conditions, search for individuals buried in public cemeteries, and link to local government web sites.

As the State provides more and more services online, the ability to access these services through faster connectivity becomes critical. The Chief Information Officer is currently working with private and public experts to find ways to encourage providers to offer universal broadband internet access to all areas of the State including the most remote rural communities.

FINANCIAL INFORMATION

Cash Management. As more fully explained in Notes 1, 3, and 4 to the Basic Financial Statements, cash is controlled by the State Treasurer or by other administrative bodies as specified by law, and investments are made in compliance with the State Money Management Act (*Utah Code*, Section 51–7). All cash deposited with the State Treasurer by state entities is managed in pooled investment funds to safeguard assets and to maximize interest earnings. The Treasurer invests the cash, including the cash float, in short-term securities and other investments such as certificates of deposit, obligations of the U.S. Treasury, commercial paper, and repurchase agreements. Certain investment pools may invest in corporate bonds and equity securities.

Debt Administration. Since fiscal year 1998 the State has issued \$1.19 billion of general obligation bonds for highway construction, mostly for rebuilding I-15 in Salt Lake County. The State has also issued \$316.39 million of general obligation bonds and \$175.01 million of lease revenue bonds for construction of capital facilities, a significant portion of which are located on the campuses of the State's colleges and universities. Finally, since fiscal year 1998, the State has refunded or advance refunded \$708 million of general obligation bonds and \$119 million of lease revenue bonds to take advantage of historically low interest rates. More information about the State's long-term debt is found in Note 10 to the Basic Financial Statements.



Risk Management. The State is self-insured against certain property and liability claims. The Legislature established the Risk Management Fund to pay for commercial insurance or to accumulate reserves for the self-insured portion of certain property and liability risks. Revenues are generated from premiums charged to state departments, institutions of higher education, and local school districts. The property self-insurance limits for fiscal year 2002 were \$1 million per claim, with an annual aggregate of \$2.5 million per policy year. Generally, claims over the self-insured limits are covered by policies with private insurance companies.

Pension Plans. Operations of the Utah Retirement Systems have continued with favorable results. The retirement systems and plans are actuarially sound, and the funding levels are managed to provide participants a financially sound retirement.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its comprehensive annual financial report for the fiscal year ended June 30, 2001. This is the seventeenth consecutive year the State has received this award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

CONCLUSION

We hope this report provides data useful in evaluating the financial activity of the State of Utah. We express our appreciation to the budget and accounting officers throughout state government and to the State Auditor's Office for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

A handwritten signature in black ink, reading "Kim S. Thorne". The signature is fluid and cursive, with the first name "Kim" and last name "Thorne" clearly legible.

Kim S. Thorne, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
Utah

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy D. Dwyer
President

Jeffrey L. Esser
Executive Director

State of Utah Organization Chart

